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Monetary Policy

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May 28, 2015. Press release of the National Bank of Moldova

Within the meeting of May 28, 2015, the Council of Administration of the NBM adopted the following decisions by unanimous vote:

1. To increase the base rate applied on main short-term monetary policy operations by 1.0 percentage points, from 13.5 to 14.5 percent annually;

2. To increase the interest rates:
- **on overnight loans by 1.0 percentage points, from 16.5 to 17.5 percent annually;**
- **on overnight deposits by 1.0 percentage points, from 10.5 to 11.5 percent annually;**

3. To increase the required reserves ratio from financial means in MDL and non-convertible currency by 2.0 percentage points and set at the level of 22.0 percent of the base starting with the maintenance period of July 8, 2015 – August 7, 2015 of the required reserves in MDL;

4. To maintain the required reserves ratio from financial means attracted in freely convertible currency at the level of 14.0 percent of the base.

The annual inflation rate in April 2015 reached the level of 7.6 percent, increasing by 0.5 percentage points compared to the previous month, mainly due to the contribution of core inflation and food prices, of 3.7 and 2.7 percentage points, respectively.

The annual rate of core inflation amounted to 10.8 percent in April 2015, increasing by 0.2 percentage points compared to March 2015.

According to the information published by the NBS, in the first quarter of 2015, the exports and imports decreased by 14.8 and 19.9 percent, respectively, while the industrial production increased by 7.7 percent compared to the first quarter of 2014.

In January-April 2015, the transport of goods decreased by 2.8 percent compared to the same period of the previous year.

In terms of consumer demand, the annual average real wage growth in January-March 2015 was 6.6 percent (including budgetary sector – 9.7 percent), by 2.3 percentage points lower than in the fourth quarter of 2014. The money transfers to individuals through the banks of the Republic of Moldova decreased by 27.2 percent in January – April 2015 and by 36.2 percent in April compared to the same periods of 2014.

At the end of April 2015, the balance of loans granted to the economy decreased by 3.8 percent compared to the end of April 2014, while the balance of deposits increased by 6.8 percent.

In April 2015, the average interest rates on loans and deposits in national currency recorded an upward evolution. Thus, the average interest rate on loans portfolio in national currency was 11.77 percent, increasing by 0.34 percentage points compared to the previous month. The average interest rate for deposits

in MDL increased by 0.64 percentage points compared to the previous month, reaching the level of 9.61 percent.

The monetary policy continues to be affected by the complexity of risk balance, with a gradual accentuation of the pro-inflationary risks. The weak economic activity in the euro area countries and the recession in the Russian Federation – the major trading partners of the Republic of Moldova, lead to risks of lower household and domestic exporters income on short-term through the external trade channel and remittances. This may further influence the dynamics of the national currency exchange rate and, subsequently, the inflation dynamics. The intensification of geopolitical tension in the region may generate additional inflationary pressures.

The depreciation of the national currency from the beginning of this year accentuates the inflationary pressures, which in the next periods will determine CPI to leave temporarily the upper limit of the range of variation of ± 1.5 percentage points from the 5.0 percent target, through the prices of imported goods and utilities tariffs, and subsequently through the second round effects .

In this context, the Council of Administration of the NBM decided by unanimous vote within its meeting of May 28, 2015 to increase the monetary policy interest rate by 1.0 percentage points from 13.5 to 14.5 percent annually.

However, in order to sterilize the liquidity excess recorded during the last months and to improve the transmission mechanism of the monetary policy decisions, the Council of Administration of the NBM decided to increase the required reserves ratio from financial means attracted in MDL and non-convertible currency for the maintenance period of July 8, 2015 – August 7, 2015 of the required reserves in MDL – by 2.0 percentage points up to the value of 22.0 percent of the base. At the same time, the required reserves ration from financial means attracted in freely convertible currency maintained the current level of 14.0 percent of the base.

These decisions aim at anchoring inflation expectations in the context of reducing and maintaining the inflation close to the target of 5.0 percent in the medium-term, with a possible deviation of ± 1.5 percentage points.

In order to support the proper functioning of the interbank money market, the NBM will continue to manage firmly the liquidity excess through sterilization operations, according to the announced schedule.

National Bank will continue to offer banks liquidity, according to the schedule announced for 2015, through term REPO operations of 14 days, at a fixed rate equal to the base rate of the National Bank plus a margin of 0.25 percentage points.
NBM will further monitor and anticipate the domestic and international economic environment developments, including household consumption dynamics, remittances, foreign exchange market indicators and changing foreign trade conditions, so that by the flexibility of operational framework specific for the inflation targeting strategy to ensure price stability in the medium term.

The next meeting of the Council of Administration of the NBM on monetary policy will take place on June 25, 2015, according to the announced schedule.

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